

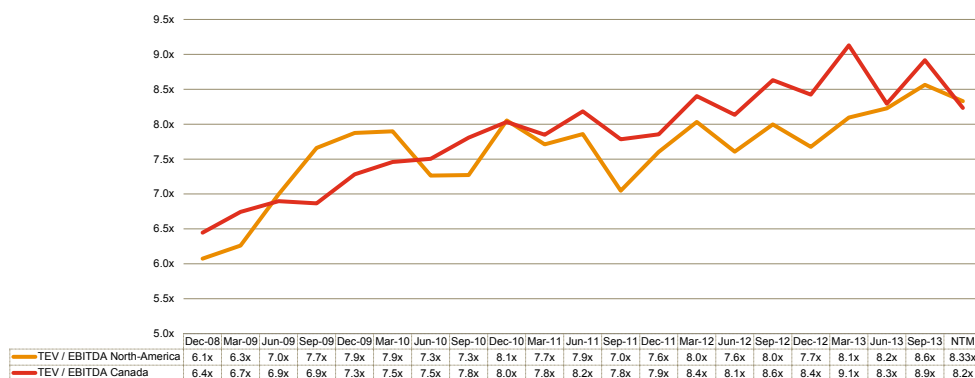
# Retail

## Valuation Snapshot Q3 2013

In the last quarter, the retail sector in Canada was characterized by significant transactions in terms of value. In North America, the average TEV/EBITDA valuation multiple continued on its upward trend for the third consecutive quarter and stood at its highest level over the last five years.

### Public market valuations: Historical Average TEV/ EBITDA multiples<sup>1</sup>

#### TEV/EBITDA (North American and Canadian companies)



TEV (Total Enterprise Value): Market Capitalization + Short-term debt + Long-term debt + Preferred Equity + Minority Interest - Cash and Equivalents  
EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization

Name	Number of companies	Total market capitalization		TEV/EBITDA							
		Total TEV (in \$US M)	Total EBITDA (in \$US M)	30-Mar-12	30-Jun-12	30-Sep-12	30-Dec-12	30-Mar-13	30-Jun-13	30-Sep-13	
Apparel Retail	45	152,458	155,580	7.0x	6.4x	7.0x	6.8x	6.5x	7.5x	7.4x	
Automotive Retail	19	96,664	69,858	9.6x	9.3x	10.1x	9.6x	10.2x	9.5x	9.9x	
Catalog Retail	5	25,204	15,464	8.1x	8.2x	9.1x	9.8x	11.0x	11.1x	10.6x	
Computer and Electronics Retail	9	24,999	24,034	4.7x	3.8x	3.9x	4.3x	6.2x	5.8x	6.5x	
Department Stores	10	78,263	56,222	7.1x	6.6x	6.7x	6.8x	7.5x	7.1x	7.2x	
Distributors	11	30,136	27,027	9.8x	8.0x	9.0x	8.8x	9.2x	9.1x	9.9x	
Drug Retail	7	159,343	140,691	9.0x	9.4x	9.5x	8.5x	9.1x	8.1x	9.9x	
Food Distributors	11	29,153	25,179	8.8x	8.2x	9.5x	8.8x	8.1x	9.2x	7.8x	
Food Retail	27	159,143	122,196	7.0x	7.1x	7.2x	7.4x	8.1x	8.0x	8.6x	
General Merchandise Stores	11	116,212	96,729	8.5x	7.9x	8.6x	8.3x	7.6x	7.7x	8.2x	
Home Furnishing Retail	11	32,722	33,339	8.2x	7.9x	8.6x	7.8x	8.7x	8.8x	8.3x	
Home Improvement Retail	7	183,225	165,384	9.1x	8.0x	9.0x	7.9x	8.8x	9.4x	9.2x	
Hypermarkets and Super Centers	3	346,191	293,886	9.1x	9.4x	9.9x	8.9x	10.0x	9.9x	10.1x	
Internet Retail	23	246,571	251,968	8.2x	9.1x	7.7x	9.0x	8.3x	9.4x	9.7x	
Specialty Stores	30	84,757	76,276	9.1x	8.7x	8.6x	7.7x	8.7x	8.2x	9.4x	
<b>Total retail</b>	<b>229</b>	<b>1,765,041</b>	<b>1,553,833</b>	<b>8.0x</b>	<b>7.6x</b>	<b>8.0x</b>	<b>7.7x</b>	<b>8.1x</b>	<b>8.2x</b>	<b>8.6x</b>	
<b>Canadian companies</b>	<b>34</b>	<b>122,017</b>	<b>98,203</b>	<b>8.4x</b>	<b>8.1x</b>	<b>8.6x</b>	<b>8.4x</b>	<b>9.1x</b>	<b>8.3x</b>	<b>8.9x</b>	

Sources: Capital IQ and PwC analysis

<sup>1</sup> Companies in the Retail industry listed in United States and Canada with a market capitalization higher than \$10M. We have excluded outliers (TEV/EBITDA multiples below 2.0x and above 15.0x).

## Performance of the Canadian companies<sup>2</sup>

Out of the **227** public companies in the retail sector, only **14%** (31) are Canadian companies (seven in the Food retail business, three in Drug retail and the rest is scattered across other retail sectors with one or two companies in each sector).

Although the average TEV/EBITDA multiple for Canadian companies as of September 30, 2013 (**8.7x**) is approximately equal to the average TEV/EBITDA multiple of US companies (**8.5x**), the analysis of the trading multiples shows certain disparities from one sector to another. The sectors where the multiple for Canadian companies is higher than for US companies are highlighted in the table to the right.

Company	Industry	Share price (\$)		Market Capitalization (M\$)	Performance	TEV/EBITDA (LTM)			Total debt/ TEV
		30-Jun-13	30-Sep-13			30-Jun-13	30-Sep-13	NTM	
Le Chateau Inc.	Apparel Retail	3.90	3.82	104.36	▼ -2.1%	16.4x	16.4x	NA	32%
Reitmans Canada Ltd.	Apparel Retail	8.95	7.51	486.65	▼ -16.1%	5.4x	5.8x	4.6x	Cash > Debt
Chesswood Group Limited	Automotive Retail	10.80	12.75	126.85	▲ 18.1%	8.6x	9.3x	9.0x	34%
AutoCanada Inc.	Automotive Retail	29.02	36.95	799.56	▲ 27.3%	17.2x	18.5x	12.9x	22%
Advent Wireless Inc.	Computer and Electronics Retail	1.60	1.95	23.28	▲ 21.9%	2.7x	4.2x	NA	Cash > Debt
Glentel Inc.	Computer and Electronics Retail	16.80	14.92	332.04	▼ -11.2%	8.4x	7.5x	6.5x	24%
Sears Canada Inc.	Department Stores	11.34	12.60	1,283.66	▲ 11.1%	22.5x	20.4x	11.1x	Cash > Debt
Hudson's Bay Company	Department Stores	16.14	17.38	2,085.60	▲ 7.7%	9.5x	10.1x	5.6x	34%
Uni-Select Inc.	Distributors	20.62	23.25	496.81	▲ 12.8%	11.7x	13.4x	9.0x	47%
PGNX Capital Corp.	Drug Retail	0.16	0.16	14.27	► 0.0%	2.7x	NM	NA	Cash > Debt
The Jean Coutu Group	Drug Retail	17.76	18.19	3,899.47	▲ 2.4%	12.2x	11.8x	11.0x	Cash > Debt
Shoppers Drug Mart Corp.	Drug Retail	48.52	59.32	11,867.29	▲ 22.3%	9.0x	10.7x	10.8x	9%
Mix 1 Life, Inc.	Food Distributors	-	1.33	38.90	NA	NM	NM	NA	0%
Colabor Group Inc.	Food Distributors	3.45	4.27	115.67	▲ 23.8%	7.3x	7.8x	7.3x	60%
Liquor Stores NA Ltd	Food Retail	17.79	15.95	367.84	▼ -10.3%	12.6x	11.6x	11.1x	29%
North West Company Inc.	Food Retail	23.50	23.57	1,140.27	▲ 0.3%	9.8x	9.7x	8.9x	12%
Empire Company Limited	Food Retail	80.42	74.37	5,053.33	▼ -7.5%	6.5x	6.3x	4.6x	9%
Metro Inc.	Food Retail	70.48	64.43	5,921.54	▼ -8.6%	8.0x	7.3x	7.8x	9%
George Weston Limited	Food Retail	83.73	81.01	10,360.85	▼ -3.2%	8.1x	7.7x	6.5x	25%
Alimentation Couche-Tard Inc.	Food Retail	62.40	64.22	12,050.00	▲ 2.9%	12.1x	10.0x	9.6x	19%
Loblaws Companies Limited	Food Retail	47.55	45.51	12,836.78	▼ -4.3%	9.2x	8.6x	7.1x	28%
Dollarama Inc.	General Merchandise Stores	73.61	83.71	5,939.54	▲ 13.7%	15.6x	16.6x	14.3x	4%
Canadian Tire Corp. Ltd.	General Merchandise Stores	79.18	91.23	7,460.92	▲ 15.2%	7.5x	8.1x	7.9x	25%
BMTC Group Inc.	Home Furnishing Retail	13.60	12.99	592.38	▼ -4.5%	9.5x	8.5x	8.4x	Cash > Debt
Leon's Furniture Ltd.	Home Furnishing Retail	12.70	13.00	918.03	▲ 2.4%	19.6x	15.1x	8.1x	39%
Coast Wholesale Appliances Inc.	Home Improvement Retail	2.92	3.56	35.72	▲ 21.9%	5.0x	5.3x	5.0x	27%
Rona Inc.	Home Improvement Retail	10.87	11.84	1,443.29	▲ 8.9%	9.6x	9.8x	8.1x	23%
Fireswirl Technologies Inc.	Internet Retail	0.08	0.23	10.25	▲ 181.3%	NM	NM	NA	17%
Coastal Contacts Inc.	Internet Retail	5.35	6.50	209.35	▲ 21.5%	NM	NM	NM	Cash > Debt
Easyhome Ltd.	Specialty Stores	10.75	13.90	165.98	▲ 29.3%	7.9x	9.0x	6.5x	23%
Lululemon Athletica Inc.	Specialty Stores	69.03	75.23	10,911.71	▲ 9.0%	20.6x	22.6x	19.5x	Cash > Debt
Rocky Mountain Liquor Inc.	Food and Staples Retailing	0.20	0.19	10.98	▼ -5.0%	10.8x	12.0x	NA	59%
North West Company Inc.	General Merchandise Stores	23.50	23.57	1,140.27	▲ 0.3%	9.8x	9.7x	8.9x	12%
Indigo Books & Music Inc.	Specialty Stores	11.04	10.50	265.62	▼ -4.9%	3.5x	9.7x	3.6x	Cash > Debt

NTM: Next twelve months

LTM: Last twelve months

NM: Not meaningful

NA: Not applicable

TEV/EBITDA	Canada	USA	Average
Apparel Retail	5.8x	7.4x	7.4x
Automotive Retail	9.3x	10.0x	9.9x
Catalog Retail	NA	10.6x	10.6x
Computer and Electronics Retail	5.8x	6.8x	6.5x
Department Stores	<b>10.1x</b>	6.8x	7.2x
Distributors	<b>13.4x</b>	9.3x	9.9x
Drug Retail	<b>11.3x</b>	9.2x	9.9x
Food Distributors	7.8x	7.8x	7.8x
Food Retail	<b>9.2x</b>	8.2x	8.6x
General Merchandise Stores	8.1x	8.2x	8.2x
Home Furnishing Retail	<b>8.5x</b>	8.3x	8.3x
Home Improvement Retail	7.6x	10.3x	9.2x
Hypermarkets and Super Centers	NA	10.1x	10.1x
Internet Retail	NA	9.7x	9.7x
Specialty Stores	9.4x	9.4x	9.4x
<b>Total Retail</b>	<b>8.9x</b>	<b>8.5x</b>	<b>8.6x</b>

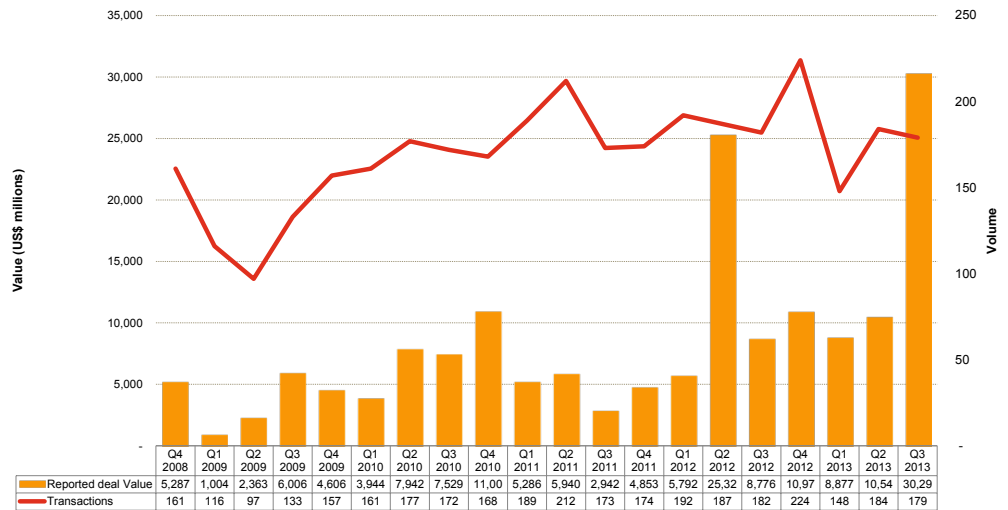
Sources: Capital IQ and PwC analysis

<sup>2</sup> It should be noted that TEV/EBITDA multiples that are higher than 15.0x are excluded from the average calculated for both Canadian and US companies.

## Recent transactions

**Q3 2013: 92 days,  
179 deals, \$30.3 billion  
reported deal values for  
44 transactions<sup>3</sup>**

## Quarterly deal trend



Source: Capital IQ

- A record quarter: In North America, the number of deals continues to reflect a **strong market** (179 deals in Q3 2013 versus 184 deals in Q2 2013) however, what catches our attention the most is the reported deal value being at record high levels at **\$30 billion** compared to the average \$8 to \$10 billion for the past quarters.
- Out of these 179 deals, **18 deals** involved Canadian companies (as buyer or seller). Although the volume of Canadian deals is small (10% of the deal volume), their reported deal values were substantially higher and represented approximately **\$23 billion** or 75% of the total reported deal values with three of the largest deals involving Canadian companies.
- In the mid-market segment, the average reported deal size (excluding deals over \$1 billion) decreased from \$79.4 million (48 transactions with reported values where 46 transactions were below \$1 billion) in Q2 to \$66.2 million in Q3 (44 transactions with reported values where 39 transactions were below \$1 billion).
- On July 15, 2013, Loblaw's announced that it struck a definitive agreement to acquire Shoppers Drug Mart for \$12.4 billion in cash and stock. The Loblaw's/Shoppers deal is by far the largest transaction of the quarter. The implied EV/EBITDA transaction multiple stands at **10.8x**.
- The second largest deal involved Canadian players as Neiman Marcus Inc., the Dallas-based luxury chain, agreed to be acquired by Ares Management LLC and the Canada Pension Plan Investment Board for \$6 billion on September 9, 2013.
- This transaction continues the trend of Canadian companies increasing their footprint in the US retail market after Hudson's Bay Co. (HBC) agreed to buy Saks Inc. for \$2.4 billion in July. The TEV/EBITDA multiple of Saks' acquisition stood at **10.8x<sup>4</sup>** while the Neiman's transaction price represented a TEV/EBITDA multiple of **9.5x<sup>5</sup>**. Both of these transactions were also driven by the real estate assets owned by the target companies.
- For the deals with reported values in Q3 2013, the average reported TEV/EBITDA multiple stood at **9.6x<sup>6</sup>** and the average premium paid over the week prior to the transaction stood at **23%**.

<sup>3</sup> Capital IQ has provided data for only 44 transactions out of the 179 deals reported for Q3 2013. This compares to 48 transactions out of 184 transactions for Q2 2013.

<sup>4</sup> Capital IQ

<sup>5</sup> Bloomberg LLP

<sup>6</sup> TEV/EBITDA for a total of eight transactions: Capital IQ provided TEV/EBITDA multiples for seven transactions and Bloomberg LLP provided the Neiman Marcus multiple.

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All dollar amounts are expressed in US dollars, unless otherwise noted.

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